Consumer Credit and Price Control

GOVERNMENTAL price control is now proceeding along two general lines. Not only are individual prices being regulated through the establishment of price maximums, but the pressure on prices is to be relieved by curtailing purchasing power in the hands of consumers, either through taxation and bond sales or through limiting the availability of credit.

Control over individual prices has been under way for almost a year and today remains the most important element of price policy. Regulation of this character takes cognizance of the huge demand created both directly and indirectly by defense requirements but suggests that in the main this demand can be fulfilled—at least for the time being. Only in a relatively few lines—and the metals were the outstanding examples—did the nature of defense requirements quickly call forth a rate of output which pressed upon the limits of plant capacity. Since a price advance could not alleviate the shortages created, maximum prices were established and available supplies were rationed under priority control. The price bill now before Congress is directed toward strengthening the ability of the executive to exercise individual controls of this nature. It does not provide for an over-all freezing of prices.

The effects of placing a curb on consumer credit are quite different. Such a curb affords one method of curtailing consumer demand over a wide area, though both the degree of the curtailment and the time during which it will be effective are strictly limited. It is feasible to reduce only certain types of consumer debt and the deflationary effect lasts only while the debt is being retired (assuming no new debt is being created).

The Pattern of Consumer Debt.

At the end of 1940 aggregate consumer debt in the United States was 27.6 billion dollars. This debt had been incurred for a variety of purposes, with approximately 17 different types of lenders serving the consumer. About 70 percent of the total represented long-term debt held against real estate and home construction. Since the beginning of 1941 such mortgage debt has been further expanded, though estimates of the extent of this growth are not now available. As pointed out in the Survey last month, housing needs at present are very large, so that real estate financing probably will be curtailed only as much as material shortages and priorities make new construction impossible. Hence, little reduction in long-term mortgage debt is to be expected in the near future.

Part of the remaining intermediate and short-term debt has been incurred for unusual personal or family expenditures, such as hospital bills, burial fees, and other such expenditures. Curtailment of these is not desirable and is not expected. Nor is it feasible or necessary (the effect on purchasing power would be relatively small) to curb the 2 billion dollars outstanding in monthly charge accounts.

Thus, the chief interest in consumer credit as an agent of price control centers on installment consumer debt—credit normally extended for a period longer than 3 months for purchasing goods at retail and which is repayable on a deferred-payment basis. At the end

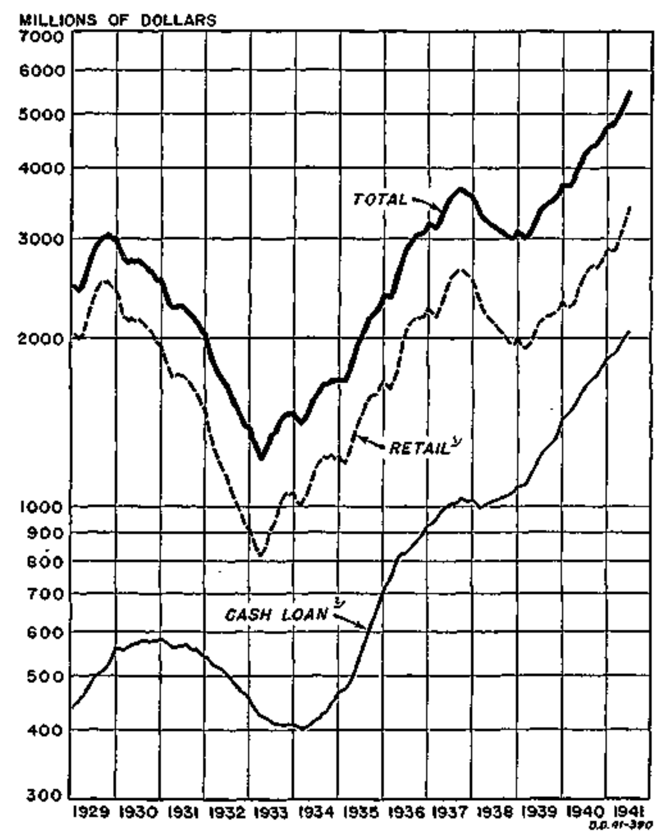

Figure 6.—Consumer Installment Debt Arising from Retail Sales and Cash Loans, End of Month 1929–41. (Data for 1929–38, National Bureau of Economic Research; data for 1939–41, U. S. Department of Commerce.)

1 Includes all retail classifications shown in table 1, p. 10 with the exception of "all other stores."

2 Includes cash loan agencies shown in table 1, p. 10, except "unregulated lenders."

of 1940 this totaled 5.0 billion dollars, of which some 3.1 billion was in the form of retail installment credit and 1.9 billion represented cash loans to consumers made by banks and other cash-lending agencies (see table 1, p. 10).

The rising level of income helped to produce a further expansion of installment consumer debt (and this, in turn, boosted the income level still further). Rough estimates indicate that the total at the end of last June was approximately 5.8 billion dollars. Over the previous 12-month period it is estimated that roughly 8.7 billion of new installment loans had been issued to consumers. At the same time repayments amounted to 7.4 billion; hence installment consumer debt had been expanded (and consumer purchasing power for durables and services like medical and hospital care had been augmented) by a net amount of 1.3 billion dollars.

Thus, if installment consumer credit had been completely cut off at the end of June, consumer purchasing power in the ensuing 12 months would be reduced by the amount of debt retirement plus any net increase in the debt which would have occurred in that period if the curtailment had not been instituted. While complete information is not available as to the time distribution of the installment debt, it is believed that around three-fourths of the total would be retired in the 12 months following complete curtailment. The remainder would largely be retired over the second year. The extent to which the aggregate of installment credit outstanding might have been expanded in the absence of any curb (and which therefore must be included as part of the restrictive influence of the curb) would chiefly depend on the availability of consumer durable goods and the rate of increase of the national income. Regardless of any restriction on credit, the output of consumer durables over the next year would inevitably be cut by priority action on scarce raw materials. Hence aggregate credit outstanding against durables would in all likelihood decline even though no curb were placed on credit.

Table 1.—Consumer Installment Credit Outstandings, End of 1938, 1939, 1940, and Volume of Credit Granted in 1940

[Millions of dollars]

Item	Outstandings (end of year)			Credit granted during 1940
	1938	1939	1940	
Total retail and cash loan	3,354.8	4,022.4	5,038.6	7,403.2
Retail [1]	2,187.5	2,532.8	3,131.8	4,314.4
Automobile dealers (new and used passenger cars)	1,108.6	1,372.4	1,829.2	2,593.8
Department stores	233.3	253.0	279.0	457.7
Furniture stores	382.6	395.2	420.9	484.8
Household appliance stores	222.5	236.3	269.3	316.4
Jewelry stores	53.1	58.9	66.4	96.4
All other stores	187.4	217.0	267.0	365.3
Cash loan	1,167.3	1,489.6	1,906.8	3,088.8
Commercial banks	248.0	387.0	580.6	981.8
Credit unions	112.6	146.7	189.2	320.1
F. H. A. (Title I) notes	137.8	197.8	276.9	190.5
Industrial banking companies	230.0	256.6	287.7	535.8
Personal finance companies	346.0	434.5	505.4	926.6
Unregulated lenders	92.9	67.0	67.0	134.0

[1] Outstandings are classified according to originating agency and include installment contracts sold to banks and finance companies as well as those retained by retailers.

Source: Figures for 1939 and 1940 are estimates of the Bureau of Foreign and Domestic Commerce. The estimates for 1938 were taken from "The Volume of Consumer Installment Credit, 1929–38," National Bureau of Economic Research.

The amount of credit outstanding against various commodities cannot be determined accurately. No detailed information is available concerning the purpose for which cash installment loans have been granted to consumers by banks and other cash-lending agencies. However, the extent to which retail installment credit has been advanced by dealers selling various durable goods is suggested in figure 7.

By far the largest amount of installment credit has originated from the installment sales of automobile dealers—the total outstanding was 2.4 billion dollars in June. Roughly 62 percent of their business entails this type of installment credit. In addition, a growing volume of the cash advanced to consumers by banks and other cash-lending agencies has been used for automobile financing. The expansion of automobile credit in the first 6 months of this year is emphasized by the fact that 400 organizations reporting to the Census extended 1,232 million dollars to purchasers of automobiles as contrasted with 862 million in the first 6 months of 1940.

Buyers of household appliances and furniture also rely heavily on installment credit, as close to half of the purchases from stores specializing in these articles have been on this basis. Department stores likewise have made proportionately large sales of such articles on credit.

Light Curbs Placed on Consumer Credit by Reserve Board.

As an initial effort toward curbing consumer demand, the Federal Reserve Board has promulgated regulations governing the issuance of installment credit for 24 metal-using commodities, including furniture. The chief effect is to increase down payments and shorten maturity periods. However, in but few instances do the new terms differ drastically from those that already prevailed over large sectors of the industries concerned.

This fact is well illustrated in table 2, which compares typical installment terms offered on selected consumer durables prior to the new regulations with those set forth by the Federal Reserve Board. For example, whereas down payments on automobiles have, for the most part, ranged from 20 to 33⅓ percent, the minimum now will be 33⅓ percent. Most automobile loans have matured over a 12- to 24-month period, with the largest volume centering on 18 months. The latter is now the maximum maturity period.

In the case of a number of other less important household commodities, down payments in 1940 varied from 0 to 10 percent; henceforth, the minimum is to be 20 percent of the price after allowance for any trade-in. Moreover, maturity dates for these articles have differed widely—from 12 to 36 months—and now they will be 18 months.

More important, perhaps, than the new minimum size of the down payments is their method of determination. Whereas formerly the value of a used article traded in could be counted as part or all of the down payment. With the exception of automobiles from now on the down payment is determined on the basis of the cash balance payable after the trade-in allowance has been deducted from the selling price.

The control over consumer credit thus far initiated will have but a limited influence in curtailing purchasing power. Rather, as was suggested above, the administration of priorities, on scarce material supplies, will be more effective in reducing the use of credit through decreasing the supply of durable commodities available for sale. The provisions for heavier down payments and shorter maturity periods as they now exist will place but a small curb on purchasing power and an even smaller curb on the prices of scarce civilian goods. The Office of Price Administration will continue to control such prices directly where needed. On the other hand, the consumer credit provisions do serve—in a manner similar to a price rise—as a minor means of allocating scarce goods to those able to pay cash. If they should be made more stringent, they would undoubtedly make it more difficult for low income groups to enter the durable market.

Table 2.—Estimates of Typical Installment Terms Offered on Selected Consumers' Durable Goods During 1940 and Proposed Terms Under Federal Reserve Board Regulations

Item	Down payment in 1940 (percent of sales price)	F. R. B. minimum down payment (percent of basis price)[1]	1940 contract maturities (months)		F. R. B. contract maturity (months)
			Range	Largest volume	
Automobiles:					
New	20 to 33⅓	33⅓	12 to 24	18	18
Late models	20 to 33⅓	33⅓	12 to 24	18	18
Older models	20 to 40	33⅓	12 to 18	12	18
Refrigerators	0 to 10	20	12 to 30	30	18
Washing machines	0 to 10	20	12 to 24	18	18
Radios	0 to 10	20	12 to 18	12	18
Stoves and ranges	0 to 10	20	12 to 30	30	18
Furniture	0 to 25	10	12 to 24	18	18

[1] Basis price in the case of automobiles is the sales price: in other cases it is the sales price minus the allowance for an article traded in.

That further stiffening of consumer credit terms is to be expected in future months has been suggested by the Chairman of the Board of Governors of the Federal Reserve. Moreover, the inclusion of furniture among those items affected indicates that a primary aim of the program is the curtailment of purchasing power in general, as well as the curtailment of demand for certain individual commodities. Furniture uses but a small quantity of the materials now in scarce supply as a result of competing defense needs, and in the absence of a general curtailment purchasing power (including credit) cut off from other durables would be diverted toward it.

Notwithstanding further changes in credit terms, however, it again must be emphasized that the effects of even a complete curtailment of consumer installment credit, while of a magnitude that would be significant, would be limited as to time. Thus, as the Chairman of the Board of Governors of the Federal Reserve has stated, "consumer credit regulation . . . is a supplemental instrument to be used in conjunction with the broader, more basic fiscal and other govern-

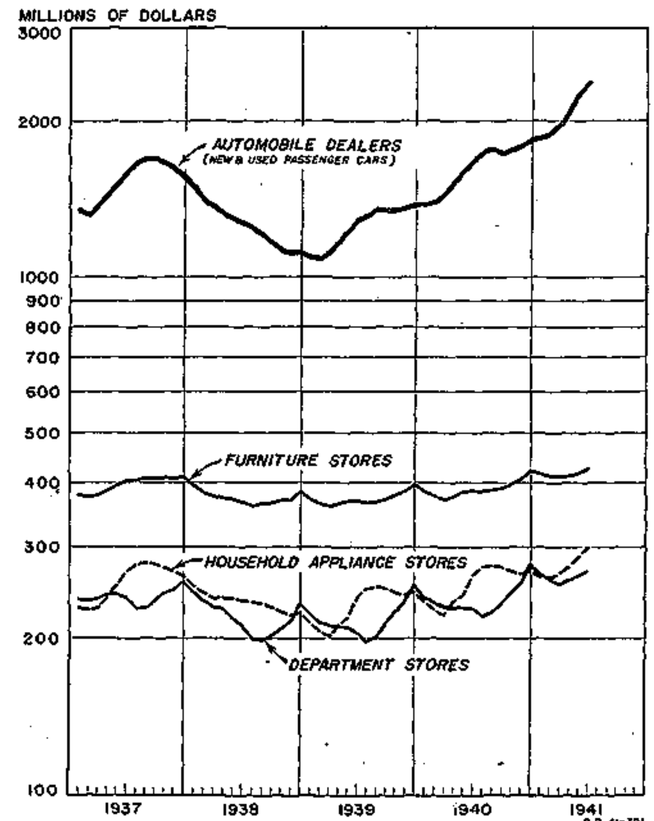

Figure 7.—Consumer Installment Debt Arising from Sales of Selected Types of Retail Establishments, End of Month 1937–41 (Data for 1937 and 1938, National Bureau of Economic Research; data for 1939–41, U. S. Department of Commerce).

mental powers in combating price inflation." If defense expenditure eventually becomes so large as to require an over-all limitation on consumer demand (with a consequent freeing of labor and other resources for military production), a fiscal policy directed primarily at reducing consumption will become a necessary basic instrument of price control.